FIFTY-SECOND REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1988-89)

(EIGHTH LOK SABHA)

INDIAN PETROCHEMICALS CORPORATION LIMTED — WORKING RESULTS

(MINISTRY OF INDUSTRY — DEPARTMENT OF CHEMICALS AND PETROCHEMICALS)

LOK SABHA SECRETARIAT
NEW DELHI

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COMMITTEE ON PUBLIC UNDERTAKINGS
(1988-89)

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3. Shri K.P. Singh Deo
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7. Shri Lal Vijay Pratap Singh
8. Prof. Saif-ud-din Soz
9. Shri Kamal Morarka

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this 52nd Report on Action Taken by Government on the recommendations contained in the 21st Report of the Committee on Public Undertakings (Eighth Lok Sabha) on Indian Petrochemicals Corporation Limited—Working Results.

2. The 21st Report of the Committee on Public Undertakings was presented to Lok Sabha on 9 April, 1987. Replies of Government to all the recommendations contained in the Report were received on 22 February, 1988. Further information on some of the recommendations called for from the Government, was received on 23 August, 1988. The replies of Government were considered by the Action Taken Sub-Committee of the Committee on Public Undertakings on 7 February, 1989. The Committee also considered and adopted this Report at their sitting held on 7 February, 1989.

3. An analysis of the Action Taken by Government on the recommendations contained in the 21st Report (1986–87) of the Committee is given in Appendix II.

NEW DELHI;
February 21, 1989
Phalguna 2, 1910(S)

VAKKOM PURUSHOTHAMAN
Chairman,
Committee on Public Undertakings

CHAPTER I

REPORT

The Report of the Committee deals with the action taken by Government on the recommendations contained in the Twenty-first Report (Eighth Lok Sabha) of the Committee on Public Undertakings on Indian Petrochemicals Corporation Ltd — Working Results which was presented to Lok Sabha on 9 April, 1987.

2. Action Taken Notes have been received from Government in respect of all the 19 recommendations contained in the Report. These have been categorised as follows:

(i) Recommendations/observations that have been accepted by Government.

Sl. Nos. 1, 2, 3-8, 9, 10-17 and 19

(ii) Recommendations/observations which the Committee do not desire to pursue in view of Government's replies

Nil

(iii) Recommendations/observations in respect of which replies of Government have not been accepted by the Committee.

Sl. No. 18

(iv) Recommendations/observations in respect of which final replies of Government are still awaited.

Nil

The Committee will now deal with the action taken by Government on some of their recommendations:

A. *Monitoring of Inventory Holdings*

Recommendation Sl. No. 10 (Paragraph 4.18)

3. The Committee found that the position of inventory holdings in IPCL over the years had not been quite satisfactory. The inventory of raw materials which was of the order of Rs. 10.16 crores in 1981-1982 rose to Rs. 13.96 crores in 1983-84. The position in respect of stores and spares was particularly bad as their inventory increased from Rs. 36.50 crores in

1981-82 to Rs. 45.13 crores in 1984-85, registering an increase of about 25%. The Committee had, therefore, felt that monitoring on regular and sustained basis should be done on the inventory holdings of the Company.

4. The Government have stated in their reply that IPCL has been asked to take necessary action to reduce inventory of raw material through monitoring on a regular and sustained basis.

5. The Committee find that the directions given by the Government to IPCL to keep their inventory holdings within the normative figure of consumption have not clearly been spelt out. The Committee would, therefore, like to be apprised of the concrete steps taken by IPCL to monitor regularly their inventory holdings and also about the precise procedure laid down by Government for strict observance of the prescribed norms.

B. *Liquidation of non-moving Stores*

Recommendation Sl. No. 12 (Paragraph 4.20)

6. The Committee noted that since 1982 over Rs. 10 crores were locked up in the form of non-moving stores. The Committee were informed that Survey Committees were reviewing the position and necessary action for the disposal of those non-moving items would be taken up based on their reports. The Committee desired that a fixed schedule for the Survey Committees completing their task should be laid down and strictly adhered to.

7. In their reply the Government have stated that for liquidation of non-moving stores IPCL had constituted four Committees who had since submitted their reports and recommended for keeping of certain stores as insurance items. The Government have also stated that with continuous efforts, certain non-moving items have been issued to plants. However, due to voluminous work involved in identification of the stock items, the Committees initially concentrated on high value items. The Committees have been asked to cover the remaining non-moving items by 31st December, 1988.

8. The Committee note with satisfaction that the Committees appointed by IPCL for liquidation of non-moving stores have identified high value items and have suggested measures for their disposal. The identification of the remaining non-moving stores were also to be covered by the above said Committees by the end of 1988. The Committee hope that since the areas of stores pile up have now been identified, IPCL would lay down suitable guidelines to guard against heavy accumulations of stores in future.

C. *Appropriation of profits for Internal Resources and for payment of dividend on share capital*

Recommendation Sl. No. 18 (Paragraph 6.25)

9. The Committee on Public Undertakings in their 15th Report (1967-68) on Financial Management in Public Undertakings had emphasised the need for laying down a limit on the percentage of profit earned by an Undertaking that could be utilised for building up internal resources as that would ensure that a minimum portion of the surplus is declared as dividend. While reiterating the views expressed by them earlier in 1967-68, the Committee had desired that the question of laying down a maximum limit on the appropriation of profits for internal reserves with a view to ensure payment of a minimum of dividend on the share capital should be considered at the highest level for decision, which should be applicable to all the profit making undertakings.

10. In February, 1988, the Government informed the Committee that the recommendation involved consideration of the cases of all the profit making public sector undertakings for the purpose of laying down a maximum limit on the appropriation of profits for internal reserves with a view to ensuring payment of minimum of dividend on the share capital. The matter was reported to have been referred to the Department of Public Enterprises to take a view in wider perspective and issue general guidelines on the subject. Subsequently, in August, 1988, the Government informed that a view had since been taken in consultation with BPE that no further guidelines were necessary.

11. The Committee are constrained to observe that the Government has not given serious thought to their recommendation. They cannot but express their unhappiness over the terse reply given by them that "A view has since been taken in consultation with BPE that no further guidelines are necessary". The Committee have not been informed about the specific reasons for not implementing the recommendation of the Committee. The Committee desire that keeping in view the spirit behind the original recommendation of Committee, the Government should reconsider the matter with a view to ensure that at least a minimum portion of surplus is invariably utilised for the declaration of dividend.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation Sl. No. 1 (Paragraph 1.11)

The working of IPCL was examined by the Committee on Public Undertakings in 1975. In para 1.35 of their 64th Report (1947-75), the Committee had *inter-alia** observed that IPCL had not formulated its statement of objectives /obligations in spite of the fact that IPCL had been asked by the Ministry in 1971 to look into the matter. The Ministry had then admitted that "in the ultimate analysis, it is the fault of the Ministry" and that they should have pursued it more vigorously. The Committee was then informed in March, 1976 that the statement of objectives and obligations of IPCL was expected to be finalised by 30th April, 1976. The statement of objectives and obligations was actually approved by the Board of IPCL only on 28th June, 1977. Thereafter the Department of Petroleum took six years in processing and part of the delay is attributed to loss of relevant file in BPE. The objectives and obligations of IPCL were finally approved in November, 1983. The net analysis is that while the Company took six years to prepare a draft statement of objectives and obligations, the Government took another six years to consider that draft statement. Even conceding that part of this long delay is due to loss of the file in BPE the Committee cannot but deprecate this casual approach both on the part of the Undertaking as well *as* the Ministry. This inordinate delay has resulted in the Company having to work for a long time during crucial years of its development without any specific statement of objectives and obligations.

Reply of the Government

The observations made by the Committee regarding delay in finalisation of the Statement of Objectives / Obligations of IPCL are noted. The objectives /obligations were, however, approved in November 1983.

[Ministry of Industry, Deptt. of Chemicals and Petrochemicals O.M. No. 40012 /1 /87-PC III (Part-I) dated 22.2.1988]

Recommendation Sl. No. 2 (Paragraph 1.14)

Even though guidelines had been issued as far back as in 1974 by BPE to all the public undertakings to prepare their Corporate Plans and get them ratified by the concerned Administrative Ministries, IPCL initiated action in this behalf only in August, 1984. Precious ten years were lost as the statement of objectives and obligations of the company was finalised only in November, 1983. Even thereafter it took IPCL more than a year and a half to finalise and submit their Corporate Plan for approval to the Ministry. The Department of Petroleum in one of their circulars issued on 29th June, 1984 requested all the public undertakings under their control to prepare Corporate Plans of their organisations and submit the same for formal ratification/approval to the Department. Strangely a stand has now been taken by the Department of Chemicals and Petrochemicals that the Corporate Plans do not require Government's formal approval. In this connection, the Committee would like to recall that in para 1.17 of their 91st Report (7th Lok Sabha) on Bharat Petroleum Corporation Limited, the Committee had recommended that 'specific approval of Corporate Plan by Government is necessary having regard to the need to correlate it with the national Five Year Plans and to indicate the direction that the Company should take.' This recommendation had been accepted by the Ministry of Petroleum and implemented. It is relevant to mention that IPCL was at that time under the administrative control of Ministry of Petroleum. The Committee desire that the Corporate Plan submitted by IPCL in February, 1986 may be formally ratified by the Ministry without any further delay and the Committee informed of it within 3 months of the presentation of this Report.

Reply of the Government

The Corporate Plan has been submitted by IPCL and the same was scrutinised in the Department. Certain observations were made and IPCL was asked to discuss the issues with the Department. IPCL has recently furnished clarifications in the matter which are presently under consideration. The Corporate Plan is, however, expected to be finalised/approved by March' 88.

Present Position

The Corporate Plan has since been approved by Government.

[Ministry of Industry, Deptt. of Chemicals and Petrochemicals O.M. No. 40012/1/87-Pc III (Part-I) dated 22.2.1988]

Recommendation S. Nos. 3 to 8 (Paragraphs 2.34 to 2.40)

The main raw material for both the mother plants of IPCL namely Aromatics and Olefins is naphtha, which is supplied by the Gujarat Refinery of the Indian Oil Corporation. The xylenes unit of the Aromatics plant of IPCL was designed to process naphtha having C-8 precursor content of 44.77 per cent. However, right from the start up of the Unit in May, 1973, the C-8 precursor content of naphtha supplied by the Gujarat Refinery has ranged between 35 and 42.7 per cent and has never reached the specified limit. This has adversely affected the production of xylenes so much so that throughout the period from 1976-77 to 1984-85, the production of xylenes was less than the rated capacity. Consequently the Company had to import para-xylene at a total cost of Rs.21.18 crores during 1981-85 to meet the needs for production of DMT.

The problem of quality of naphtha supplied to IPCL by the Gujarat Refinery had been highlighted as far back as in 1975 by the Committee on Public Undertakings, when it reviewed the working of the IPCL. The Committee had then been assured that long term measures for the sustained supplies of the requisite quality of naphtha were being taken. It is a matter of deep concern to note that even after more than a decade the problem of supply of naphtha of adequate quality has not been satisfactorily resolved and the short fall in production of xylenes and its co-products thus persists due to non-implementation of remedial measures which were identified long back and about which a commitment was made to the Committee on Public Undertakings in December, 1975.

As regards the quality of naphtha supplied by Gujarat Refinery, the Committee have been informed that at the time of designing of the IPCL Complex, Gujarat Refinery's maximum crude supply used to come from Ankaleswar and the norm of C-8 precursor content of 44% was based on the exclusive use of Ankaleswar crude by the Gujarat Refinery. However, with the growing use of Gujarat crude and Bombay High crude by the Gujarat Refinery as also the changes in the operation of the refinery, the quality of naphtha supplied to IPCL went beyond refinery's control and naphtha with C-8 precursor content of 44% could never be supplied to IPCL. It is interesting to note that the Ministry of Petroleum and Natural Gas has now come forward with an explanation that there was "obviously an error in analysis of 110-140°c cut naphtha used for design of the unit as the value of 44.77% of precursors has not been found at any time later even in the series of controlled test runs." This seems to be an after thought as in May, 1976, the Gujarat Refinery had expressed their inability to supply adequate quantity of requisite quality of naphtha on the ground that it would result in considerable loss to the refinery on account of lower production of middle distillates and difficulties in the disposal of the resultant higher output of Low Sulphur Heavy Stock (LSHS). It is also on

record that Gujarat Refinery had made an offer to IPCL to improve the quality of naphtha if the IPCL could compensate the refinery for the resultant loss. This offer was rejected as the IPCL and the refinery could not successfully negotiate the commercial terms on which the refinery could be compensated for the enhanced cost involved in improving the quality of naphtha. It is thus clear that the then Department of Petroleum as the administrative Ministry of the IPCL and the Gujarat Refinery failed to play a meaningful role in sorting out the issue regarding supply of low quality naphtha by the refinery and consequent shortfalls in production of xylenes in the Aromatics plant of IPCL.

The Committee find that the Company has considered various measures to improve the production of xylenes but the non-availability of naphtha of the requisite specification is still eluding satisfactory solution of the problem. As long term measure considered for getting over the problem of inadequate supply of requisite quality of naphtha envisaged installation of prefractionation facility. But the economics of investment on a prefractionator was not found viable and therefore the proposal for the facility, which was expected to be in operation by early 1978, was considered redundant and dropped in 1982. The present situation is that even after some optimisation work done by IOC with the help of EIL and Indian Institute of Petroleum, IPCL is not getting the required standard of naphtha and the shortfall in production is about 8.75 per cent. This position is expected to continue upto the end of 1988, when the expansion project for increasing the production of xylenes, now under execution, is likely to be completed. It is only to be hoped that the expansion project is completed on schedule.

From the above, the Committee cannot but conclude that right from the beginning the question of supply of naphtha of requisite quality for the aromatics plant of IPCL has not been handled in a prudent manner. Even though it was patently clear that the Gujarat Refinery could not meet the requirements of IPCL, both for technological and commercial reasons, the problem was allowed to persist for too long. If sincere and concerted efforts had been made at the Ministry's level to sort out an essentially inter-firm problem, the Committee have the least doubt that the problem could have been resolved amicably much earlier to the satisfaction of both the undertakings.

Apart from the naphtha used in the Aromatics plant of IPCL, the quality and quantity of naphtha used in the Naphtha cracker of IPCL has also posed problems for the undertakings. It has been stated that Naphtha Cracker designed to process 4,50,000 MTA of naphtha was commissioned in 1978 and naphtha quality had been close to design till January, 1981.

Thereafter because of processing of crude from different sources and more of Bombay High Crude, the maintenance of the quality of naphtha supplied for Naphtha for Naphtha Cracker became a problem. As it was difficult to change the pattern of crude processing in Gujarat Refinery, the IPCL's requirements of naphtha for its cracker could not be met. The problem has been allowed to drag on and no satisfactory solution has been found so far. The Committee consider it as a highly unsatisfactory state of affairs which calls for urgent and conclusive remedial measures.

The Committee are surprised to note that a revamping of the naphtha cracker at IPCL had been planned but it involved increased supply of naphtha by the Gujarat Refinery from the current level of 4,50,000 MTA to 5,20,000 MTA by 1987-88. Against the enhanced requirements, the refinery has expressed that they can supply at best only about 3,50,000 MTA of naphtha for the cracker having less than 10% of aromatics from 1986-87. For meeting the balance requirement other alternatives are being considered. Among these measures even import of naphtha of adequate quality has been considered. However, no firm decisions seem to have been taken so far. This is despite the fact that the problems in the supply of naphtha to fertilizer and petrochemical plants are regularly reviewed by the Oil Coordination Committee, which suggests solutions that are acceptable to both consumers and suppliers. It is difficult to believe that all these years it has not been possible for Oil Coordination Committee to find a solution for the problems of IPCL. Obviously there has been lack of concerted efforts and the Committee condemn this obvious inaction on the part of the Oil Coordination Committee.

Reply of the Government

The observations of the Committee have been noted. However, to improve the operations of the naphtha cracker plant, in 1986-87 IPCL obtained 23,700 metric tonnes of imported naphtha with aromatic content of less than 5 per cent by weight and 3,800 metric tonnes of superior quality of naphtha from Madras Refineries Limited with aromatic content being 3.46 per cent by weight. These two steps helped IPCL run its Complex at the highest ever capacity utilisation during 1986-87. In addition, Gujarat Refinery has taken on hand certain modifications in the planning and routing of low aromatic streams to naphtha cracker plant. These modifications are likely to be completed towards end of 1987 following which the aromatic content of naphtha from Gujarat Refinery will be around 7 per cent by weight. Gujarat Refinery has been able to supply over 142,000 metric tonnes of naphtha for IPCL's naphtha cracker plant during 1986-87. IPCL does not apprehend shortfall in supplies of

naphtha from Gujarat Refinery and other sources, despite its capacity being raised to processing over 520,000 metric tonnes.

[Ministry of Industry, Deptt. of Chemicals and Petrochemicals O.M. No. 40012/1/87-Pc III (Part-I) dated 22.2.1988]

Further reply of Government

Naphtha for Aromatics Plant

To improve precursor level, Indian Oil Corporation Limited and IPCL have agreed to control ASTM distillation range with reference to 5 percent and 95 percent points. This will help in better quality of naphtha. To compensate for low precursor compared to design, naphtha throughput has been increased from 112,000 metric tonnes per annum to 120,000 metric tonnes per annum. After the completion of xylenes expansion project there will be further capacity increase in 1989-90. The expanded unit will incorporate the latest bi-metallic catalyst.

Naphtha for Olefins Plant

It is understood that IOCL will supply 520,000 metric tonnes per annum of low aromatic naphtha. Any shortfall in specification in this supply will be made up by supplies from Madras Refineries Limited or by imports.

IOCL diverts relatively lower aromatic naphtha stream for the olefins plant and diverts higher aromatic content stream to motor spirit pool or to fertilizer naphtha pool. This has considerably reduced the aromatic content in naphtha for the olefins plant. At IPCL the cracking heaters have been revamped to enable processing additional quantities of naphtha in order to meet shortfall of ethylene, propylene and butadiencc products.

Frequent meetings between IPCL, IOCL and Oil Coordination Committee have helped in obtaining improved quality of naphtha. In these meetings action plan has also been discussed for further improvements. The quantity of naphtha received from Gujarat Refinery for the olefins plant of IPCL in the year 1987-88 and for the period 1.4.1988 to 30.6.1988 is as follows:—

Period	*Quantity received in metric tonnes*	
April 1987 to March 1988	Ex-Gujarat Refinery	441,089.338
	Ex-Kandla (MRL /imported)	14,676.301
	Total	455,765.639

Period	*Quantity received in metric tonnes*	
April 1988 to June 1988	Ex-Gujarat Refinery	100,343.978

[Ministry of Industry, Deptt. of Chemicals and Petrochemicals O.M. No. 40012/87-PC.III (Pt.II) dated 23.8.1988].

Recommendation Sl. No. 9 (Paragraph 3.9)

IPCL has a Research and Development Centre on which a capital cost of Rs. 8.9 crores has already been incurred and during the Seventh plan period further capital expenditure of the order of Rs. 31 crores is envisaged. The current operating revenue expenditure on the research centre, which has astrength of 196 scientists, is stated to be Rs. 1.2 crores and is likely to go up to Rs. 2 crores in future. When asked about the extent of benefits accrued in the production performance of the Company with the establishment of R & D Centre, the Committee have been informed that the total average benefit has been of the order of Rs. 2.06 crores per annum. It is no doubt necessary that an organisation like IPCL should have a fully equipped R & D facility. At the same time it is equally important that a periodic evaluation should be made to ascertain whether the expenditure on the R & D outfit has been commensurate with the benefits derived. In 1975, the Committee had suggested that an objective appraisal by an independent expert body of the work done by the R & D Centre might be undertaken. Unfortunately no such assessment has so far been made. The Committee would like to reiterate that an objective appraisal of the performance of the R & D Centre is a must and it should be carried out without any further delay to assess how far the Centre has succeeded in achieving the objectives for which it was set up.

Reply of the Government

A Technical Committee has been set up for the purpose. The Committee has been asked to submit its report in 3 months.

[Ministry of Industry, Deptt. of Chemicals and Petrochemicals O.M. No. 40012 /1 / 87-PC. III (Part-I) dated 22.2.1988]

Further reply of the Government

The Department of Chemicals and Petrochemicals constituted a Technical Committee for carrying out an objective appraisal of the performance of R & D Centre of IPCL. The Technical Committee has since submitted its

report. The Technical Committee have come to the conclusion that IPCL's R & D Centre has met its primary objectives of establishing the Centre.

[Ministry of Industry, Deptt. of Chemicals and Petrochemicals O.M. no. 40012 /1 /87- PC. III(Pt. II) dated 23.8.1988]

Recommendation Sl. No. 10 (Paragraph 4.18)

The Committee find that the position of inventory holdings in IPCL over the years has not been quite satisfactory. The inventory of raw materials which was of the order of Rs. 10.16 crores in 1981-82 rose to Rs. 13.96 crores in 1983-84. The position in respect of stores and spares was particularly bad as their total inventory increased from Rs. 36.50 crores in 1981-82 to Rs. 45.13 crores in 1984-85 thus registering an increase of about 25%. Further although the actual holdings of 'A' and 'B' class items as on 31.3.1985 were more or less according to the norms laid down, the holdings of 'C' Class items represented 31.00 months consumption against the normative figure of 12 months consumption. Thus, in Committee's opinion, the inventory holdings constitute an area which needs monitoring on a regular and sustained basis.

Reply of the Government

The observations made by the Committee have been noted. IPCL has been asked to take necessary action to reduce inventory of raw material through monitoring on a regular and sustained basis.

[Ministry of Industry, Deptt. of Chemicals and Petrochemicals O.M. No. 40012/1/87-Pc III (Part-I) dated 22.2.1988]

Comments of the Committee

[Please see paragraph 5 of Chapter I of the Report]

Recommendation Sl. No. 11 (Paragraph 4.19)

The Committee have been informed that in March, 1982 surplus stores worth Rs. 6.8 crores had been identified for disposal. However, so far surplus stores worth Rs. 4.44 crores only have been disposed of leaving a balance of one third of stores worth Rs. 2.36 crores identified as surplus five years back still lying undisposed. The Committee are sure that during the intervening five years the inventory of surplus spares must have gone up. The Committee, therefore, recommend that a further exercise be

undertaken on an urgent basis to identify the surplus stores on a specified date and thereafter action plan may be drawn up for disposal of such stores which must be occupying considerable precious space.

Reply of the Government

IPCL has been asked to set up a Committee for identification of surplus stores and to draw up an action plan within 3 months for disposal of surplus stores.

[Ministry of Industry, Deptt. of Chemicals and Petrochemicals O.M. No. 40012/1/87-PC III (Part-I) dated 22.2.1988]

Further reply of the Government

For identification of surplus stores, IPCL constituted 4 Survey Committees. The Committees have since submitted their reports indicating the items which are surplus with recommendation for further disposal. The action plan for disposal of surplus items by way of public auction has already been initiated and surplus items to the extent of Rs. 7.76 lakhs have already been sold. Besides, some of the surplus items like pipes, pipe fittings have been transferred to Maharashtra Gas Cracker Complex to meet its construction requirement.

[Ministry of Industry, Deptt. of Chemicals and Petrochemicals O.M. No. 40012/1/87-PC. III (Pt. II) dated 23.8.1988]

Recommendation Sl. No. 12 (Paragraph 4.20)

The liquidation of non-moving stores is another area which merits attention. Since 1982 onwards over Rs. 10 crores are locked up in the form of non-moving stores. It has been stated that Survey Committee were reviewing the position and necessary action for the disposal of those non-moving items will be taken based on their reports. The Committee desire that a fixed schedule for these Survey Committee completing their task should be laid down and strictly adhered to. The Committee would like to be informed about the final outcome in this behalf.

Reply of the Government

IPCL has been asked to set up a Committee for indentification of surplus stores and to draw up an action plan within 3 months for disposal of surplus stores.

[(Ministry of Industry, Deptt. of Chemicals and Petrochemicals O.M.No. 40012/1/87-PC III (Part-I) dated 22.2.1988]

Further reply of the Government

For liquidation of non-moving stores, also, IPCL constituted 4 Committees who have since submitted their reports. With continuous efforts, certain non-moving items have been issued to plants and the Committees have recommended keeping certain stores as insurance items. However, due to voluminous work involved in identification of the stock items, the Committees initially concentrated on high value items. The Committees have been asked to cover the remaining non-moving items by 31st December, 1988.

[Ministry of Industry, Deptt. of Chemicals and Petrochemicals O.M. No. 40012/1/87-PC.III (Pt. II) dated 23.8.1988]

Comments of the Committee

[Please see paragraph No. 8 of Chapter I of the Report].

Recommendation Sl. No. 13 (Paragraph 5.18)

The Committee find that as against the BPE guidelines that it was desirable that prices fixed should be operative for two to three years, IPCL has been frequently resorting to revision of selling prices of their major products. It has been pleaded on behalf of IPCL that since it operated in a market highly susceptible to changes in the international context, fiscal policies and levies and cost of raw materials and other inputs, IPCL cannot maintain its prices steady for 2 to 3 years as contemplated in the BPE guidelines. As a result IPCL has been revising its prices every year in April in the light of changes in levies and cost of feedstocks made through budgets in Parliament. The Committee do appreciate the difficulties of IPCL in strictly following the guidelines on the question of maintaining prices. However, they emphasize that there has to be a distinction between the standards which a public sector undertaking has to follow vis-a-vis private industrialists. In that context IPCL as major producer of the petrochemicals which are used as a raw material by a large segment of industry should ensure stability in its price structure for a longer duration in the larger public interest. IPCL should, therefore, endeavour to maintain its prices for longer periods even by absorbing small increases in input costs by improving its operating efficiency.

Reply of the Government

IPCL has been asked to absorb other things being equal, small increases

in the input costs of their products and to endeavour to maintain the product price for longer periods.

[Ministry of Industry, Deptt. of Chemicals and Petrochemicals O.M. No. 40012/1/87-PC III (Part-I) dated 22.2.1988]

Recommendation Sl. No. 14 (Paragraph 5.19)

In regard to the pricing policy followed by IPCL it has been stated that out of 10 major products selling in large quantities, prices of 7 products are lower than the landed cost of imported products and in the case of remaining 3 products selling prices are higher than the landed cost. The other important ingredient in the pricing policy of IPCL is that prices are fixed in such a manner that an overall and return of 12% on the total investment of over Rs. 450 crores is ensured. In order to get an overall return, the IPCL has to over-charge in some products. Thus IPCL has been fixing the selling prices of some of the products on its own assessment of what the market could bear and the prevailing demand pattern apparently dictated by the considerations of return on investment. In such cases, the actual cost of production or the concept of fair selling price get relegated to the background. The Committee feel that in pursuing such a policy there is a serious snag which should not be overlooked. From the data made available to the Committee, it is seen that in the case of some major products like LDPE, PP, DMT, PVC etc. the selling prices charged by IPCL are very much higher than the cost of production but very close to the prices charged by other competitors. In such cases the other producers who may be having a better operating efficiency and hence lower cost of production are allowed the benefit of unearned profits in the form of higher margins. The Committee, therefore, feel that it is necessary that while fixing its selling prices in respect of major products where IPCL has a dominant position and acts as a trend setter, IPCL should not follow a policy which results in unintended benefit to its competitors at the cost of consumers.

Reply of the Government

IPCL has been asked to work out a long-term pricing formula taking into account the observations made by COPU and to submit it to the Department by March 1988.

[Ministry of Industry, Deptt. of Chemicals and Petrochemicals O.M. No. 40012 / 1 / 87-PC III (Part-I) dated 22.2.1988]

Further reply of the Government

IPCL has formulated a long term pricing formula for about 40 of its saleable products. This pricing formula will generally be governed by the following major considerations :

1. Recovering fully the variable costs of production and fixed costs on appropriate basis.
2. Ensuring an overall return of minimum 12 per cent on net worth after tax based on the overall costs of production and fair selling prices.
3. For bulk production (low density polyethylene, polypropylene and polyvinyl chloride and in respect of polybutadiene rubber and linear alkyl benzene consumed by small scale sectors) protecting the interest of customers in the small scale sector by maintaining uniform ex-distribution point price at appropriate localities in the country.
4. The prices of most of the products to be positioned close to the landed costs of identical products being imported into the country and competitors prices to the extent necessary from time to time.
5. To price the products at such levels by which speculation and trading of the products in short supply by middlemen are prevented to the extent possible.
6. The pricing policy will also take into consideration the need for sustained growth in the demand for its products as well as to meet the requirements for generation of adequate internal resources to enable IPCL to invest in capital projects for further expansion of capacities for production of petrochemical products.

[Ministry of Industry, Deptt. of Chemicals and Petrochemicals

O.M. No. 40012 / 1/ 87-PC. III (Pt. II) dated 23.8.1988]

Recommendation Sl. No.15 (Paragraph 6.22)

The Committee note that IPCL started earning profit from the second year of its operation i.e. 1974-75. The Company continued to earn profit all these years except in 1978-79 when it showed a loss of Rs.10.08 crores. Inspite of the availability of sizeable free reserves from 1980-81, IPCL did not pay any dividend till 1983-84 to Government who had provided Rs. 186 crores as share capital. It was only from 1984-85 that the company paid devidend of Rs. 18.60 crores to the Government at the rate of 10 per cent. The Committee are of the view that this practice of not paying a

dividend on the share capital by a company even when it has a very sound financial position is not healthy one and needs to be curbed.

Reply of the Government

The observations made by the Committee have been noted. IPCL is now paying dividend to the Government regularly at the rate of 10% of the share capital.

[Ministry of Industry, Deptt. of Chemicals and Petrochemicals O.M. N 40012 / 1 / 87-Pc III (Part-I) dated 22.2.1988]

Recommendation Sl. No. 16 (Paragraph 6.23)

It is relevant to point out that the guidelines issued by BPE as far back as in 1968 stipulated that a manufacturing enterprise after appropriation of surplus earnings to build up reasonable reserves, to augment internal resources to finance capital expenditure and to meet its immediate financial obligations without much strain should aim at declaring dividend ranging between 6 per cent to 15 per cent. Despite the clear cut and unambiguous guidelines on the subject and despite the fact that IPCL was admittedly in a happy position to pay a reasonable dividend from 1981-82, the management has not considered desirable to pay a dividend on its borrowed capital. Strangely the Government has also not insisted on a reasonable dividend being paid on its own investment in the company. The Committee consider it a serious lapse and against the canons of healthy commercial practice.

Reply of the Government

The observations made by the Committee have been noted. IPCL is now paying dividend to the Government regularly at the rate of 10% of the share capital.

[Ministry of Industry, Deptt. of Chemicals and Petrochemicals O.M No 40012/1/87-Pc III (Part-I) dated 22.2.198

Recommendation Sl. No. 17 (Paragraph 6.24)

The main argument given by IPCL for not following an accepted commercial practice of paying dividend from earned profits is that it has been appropriating a major share of the net surplus available for

distribution for augmenting their internal resources. The Committee do not consider it to be fully convincing. The Committee find that IPCL which had an authorised limit of Rs. 40 crores for cash credit borrowings from banks liquidated its entire short term borrowings of Rs.13.46 crores as on 31.3.1983 during 1983-84 and 1984-85 and also repaid long term loans of Rs. 53.28 crores to Government and Oil Industry Development Board by 1983-84 of which Rs.15.84 crores were due only in 1984-85. The company suspended further acceptance of public deposits from January, 1984 onwards as it has a very comfortable cash position. Furthermore the company also gave short term loans of Rs. 20 crores to BPCL and HPCL in July, 1984 at 15 per cent interest and still had a cash balance of Rs. 23.68 crores as on 31.3.1985. This would clearly indicate that even though the company was literally flush with funds, it did not care to think of paying a reasonable dividend on its share capital. It was only when the Audit brought out the need for following better financial management policies that IPCL considered the question of payment of dividend in 1984-85. The Committee are constrained to conclude that in so far as the financial management is concerned, the company has not been following sound business principles and prudent commercial practices.

Reply of the Government

The observations made by the Committee have been noted. IPCL has been asked to follow the proper financial management practice as pointed out by the Committee.

[Ministry of Industry, Deptt. of Chemicals and Petrochemicals O.M. No. 40012/1/87-Pc III (Part-I) dated 22.2.1988.]

Recommendation Sl. No. 19 (Paragraph 6.26)

The Committee also feel that when funds are easily available from commercial banks for meeting the working capital requirements of a concern, it would be desirable that the company makes fullest use of this facility. Such a practice is bound to instil a sense of financial discipline and will be conducive to better performance.

Reply of the Government

The observations made by the Committee have been noted. IPCL has been accordingly asked to follow these observations.

[Ministry of Industry, Deptt. of Chemicals and Petrochemicals O.M. No. 40012/1/87-Pc III (Part-I) dated 22.2.1988]

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLIES

— NIL —

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation Sr. No. 18 (Paragraph 6.25)

It may be recalled that the Committee on Public Undertakings in their 15th Report (1967-68) on Financial Management in Public Undertakings had emphasised the need for laying down a limit on the percentage of profit earned by an Undertaking that can be utilised for building up internal resources as that would ensure that a minimum portion of the surplus is declared as dividend. In reply to a suggestion whether a maxumum limit on the profits that should be utilised for building up of internal resources should be laid down, the Department of Chemical and Petrochemicals has stated that it would not be practicable to prescribe a maximum limit as circumstances would differ from case to case. It has also been argued that since the utilisation of the resources generated by a Public Sector Company is decided by the Government the need to separately prescribe any limit on the utilisation of profits for building resources does not appear necessary. The Committee cannot agree with this argument. The Committee would like to remind that even in the guidelines issued by BPE on 20th December, 1968, it was emphasised that it may not be desirable to prescribe any hard and fast rule about the percentage of the dividend to be declared or the profits to be appropriated to the reserves. Nevertheless, the Government had desired that keeping in view the spirit behind the observations made by the Committee on Public Undertakings it should be ensured that at least a minimum portion of the surplus is invariably utilised for the declaration of the dividends. The Government had further impressed upon its representatives on the Boards of the Companies to ensure that the interest of the Governmetn as a share holder was fully kept in view by the Boards of Directors at the time of considering the appropriation of profits towards internal resources and for declaration of dividents. The Committee cannot but reiterate the views expressed by them earlier and desire that the question of laying down a maximum limit on the appropriation of profits for internal reserves with a view to ensure payment of a minimum of dividend on the share capital should be considered at the highest level for decision, which should be applicable to all the profit making undertakins.

Reply of the Government

The recommendation involves consideration of the cases of all the profit making public sector undertakings for the purpose of laying down a maximum limit on the appropriation of profits for internal reserves with a view to ensuring payment of maximum of dividend on the share capital. The matter has now been referred to the Department of Public Enterprises to take a view in wider perspective and issue general guidelines on the subject.

Present Position

A view has since been taken in consultation with BPE that no further guide-lines are necessary.

[Ministry of Industry, Deptt. of Chemicals and Petrochemicals O.M. No.40012/1/87-Pc III (Part-I) dated 22.2.1988].

Comments of the Committee

[Please see paragraph No.11 of Chapter-I of the Report]

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED

— NIL —

NEW DELHI:
February 21, 1989
Phalguna 2, 1910 (Saka)

VAKKOM PURUSHOTHAMAN,
Chairman,
Committee on Public Undertakings.

APPENDIX I

Minutes of the 28th sitting of the Committee on Public Undertakings held on 7 February, 1989

The Committee sat from 15.30 hrs. to 16.00 hrs.

PRESENT

SHRI VAKKOM PURUSHOTHAMAN — *Chairman*

MEMBERS

2. Shri S.G. Gholap
3. Shrimati Sheila Kaul
4. Shri Mohd. Mahfooz Ali Khan
5. Shri Keshorao Pardhi
6. Shri Balwant Singh Ramoowalia
7. Shri Lal Vijay Pratap Singh
8. Shri S.D. Singh
9. Prof. Saif-ud-din Soz
10. Shri A.G. Kulkarni
11. Shri Kamal Morarka
12. Shri V. Narayanasamy
13. Thakur Jagatpal Singh
14. Shri Virendra Verma

SECRETARIAT

1. Shri R.D. Sharma — *Director*

2. Shri Rup Chand — *Deputy Secretary*

3. Shrimati P.K. Sandhu — *Under Secretary*

OFFICE OF COMPTROLLER & AUDITOR GENERAL OF INDIA

Shri R.S. Prasad - Secretary, Audit Board

The Committee considered and adopted the following Action Taken Reports, as approved by the Action Taken Sub-Committee:

(i) Action Taken Report on 21st Report of CPU (1986-87) on Indian Petro-Chemicals Ltd.—Working Results.

(ii) * * * * *

The Committee authorised the Chairman to finalise the Reports on the basis of factual verification by Ministries/Undertakings concerned and Audit and to present the same to Parliament.

The Committee then adjourned.

APPENDIX II

(Vide Para 3 of Introduction)

Analysis of action taken by Government on the Recommendations contained in the 21st Report of the Committee on Public Undertakings

(Eighth Lok Sabha)

I.	Total No. of recommendations made	19
II.	Recommendations that have been accepted by the Government *(Vide* recommendations at Sl. Nos. 1-17 & 19)	18
	Percentage to total	94.70%
III.	Recommendations which the Committee do not desire to pursue in view of Government's replies	Nil
	Percentage to total	Nil
IV.	Recommendations in respect of which replies of Government have not been accepted by the Committee *(Vide* recommendation at S.No. 18)	1
	Percentage to total	5.30%
V.	Recommendations in respect of which final replies of Government are still awaited.	Nil

CORRIGENDA TO FIFTY-SECOND REPORT OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (EIGHTH LOK SABHA).

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Page	Para	Lines	For	Read
7	-	3 from bottom	Under-takings	Undertaking
8	-	3	for Naphtha for Naphtha Cracker	for Naphtha Cracker
9	-	12	butadie-nce	butadiene
10	-	10	astren-gth	a strength
.	-	19	deived	derived
14	-	11	and return	net return
16	-	11 frombottom	Canons	Cannons
19	-	9 from bottom	Govern-metn	Government
	-	6 from bottom	divide-nts	dividends
	-	1 from bottom	Under-takins	Undertakings
23	-	6 from bottom	Indian Petro-Chemicals Ltd.	Indian Petro-Chemicals Corp. Ltd.